

AGENCY FOR INTERNATIONAL DEVELOPEMENT

Office of Poverty Reduction – Urban Programs Team

ASSESSING AND STARTING A LOCAL ECONOMIC DEVELOPMENT (LED) INITIATIVE: A Primer for USAID Field Staff

Created by EGAT/UP and The Urban Institute

This primer on Local Economic Development (referred to as “LED”) is designed to provide Mission staff with a better understanding about LED. The document is broken down into four subsequent sections. The first section provides a framework for how one might want to think about and analyze the utility of a LED Initiative and what some of the elements of a LED program might be. The second section addresses successful LED strategies and illustrative components of a LED strategy. The third section is directed to key questions to be considered in judging whether or not the timing is right for LED and if so how to move forward. The fourth section provides case studies that demonstrate different approaches to LED programs (sectoral, regional, etc) and also provides samples of some LED scopes of work, related websites and other resource material. We hope that this Primer on LED is useful.

INTRODUCTION

In our global environment today, successful and economically vibrant communities depend upon being able to adapt to fast-changing national and international market forces. Yet many local governments still have a complex web of business regulations, permitting procedures, land management practices and outdated infrastructure which inhibit the ability of businesses in their communities to respond to new market opportunities. In addition to stifling local government regulations, many small businesses have limited business planning and management skills, poor access to markets and market knowledge, and almost no capital for investment. Individuals often lack experience in taking personal initiative and they neither see, nor know how to seize, opportunities. LED is a process that brings together resources from within and outside the community to address these challenges and to promote economic growth in a systematic and organized manner at the local level.

LED does not just happen; a local community needs to research its own economic strengths, agree upon a common strategy and organize itself to implement the strategy. USAID, with its robust history of national and local government capacity building, is well positioned to become a catalyst for promoting LED as a key ingredient to achieving broad-based and equitable economic growth.

SECTION I LOCAL ECONOMIC DEVELOPMENT FRAMEWORK

WHAT IS LOCAL ECONOMIC DEVELOPMENT?

Local Economic Development is a process of strategic planning through partnerships between local government, the business community and NGOs. Its objectives are to stimulate investments that will promote sustained high growth in a local community. LED focuses on the region’s potential and identifies specifically what local stakeholders can and need to do to ensure their local community reaches its potential. In this context, Local Economic Development assesses a community’s comparative advantage, identifies new or existing market opportunities for businesses, and reduces obstacles to business expansion and creation. LED activities should have an impact on the economic viability of the entire city and surrounding region not just a particular sector of the local economy.



WHY DO LOCAL ECONOMIC DEVELOPMENT?

To create new jobs, help communities retain existing jobs, help businesses access capital so that they can take advantage of new market opportunities and ultimately – local economic development should contribute to a broader, geographically balanced national framework to increase each country's global competitiveness.

The **Urban Programs Team** approach to LED supports a participatory process that encourages partnership of various stakeholders (public, private, community, civic and business leaders) (within a regional economy) designed to create a strategic vision and feasible action plans that - when implemented - results in job creation/retention.

<i>LOCAL</i>	refers to a process of valuing the endogenous potential, making optimal use of the already existing local capacities.
<i>ECONOMIC</i>	is directed towards the identification of investment opportunities, supporting entrepreneurial activities and facilitating the access to (new) markets.
<i>DEVELOPMENT</i>	is the process that is aimed at promoting an improvement in the living and working conditions of the community through the creation of new jobs, the retention of existing jobs and the generation of income.

Various LED Approaches

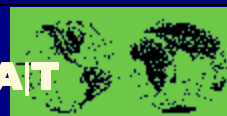
- ◆ Public-private partnership approach—to assess/seize economic comparative advantage
- ◆ Small business approach—for innovation, private investment and job creation
- ◆ Regional approach—leveraging the resources of surrounding areas
- ◆ Sector-cluster approach—supporting the most promising sectors by bringing together business, educational institutions, NGOs and government

WHAT ARE THE PRINCIPLES ASSOCIATED WITH LOCAL ECONOMIC DEVELOPMENT?

A typical LED project is led by a certain number of basic elements. They are examined in the following paragraphs:

Private/public partnership cooperation between, and the coordination of different development activities deter actors from ineffective go-it-alone approaches while supporting the legitimacy and sustainability of the development process. LED is a means to achieve the effective mobilization of local resources by encouraging investments with the highest rate of socio-economic return. The partnership between private, public and non-profit actors becomes crucial for a sustainable development process allowing the convergence in investment programming between the different local actors.

Participatory decision-making and social dialogue: the involvement of local stakeholders in the process of developing their own territory is a prerequisite for sustainable growth. Bringing local stakeholders around one table through a Local Forum helps to build trust, encourages innovation and promotes the creation of social networks and activities. Most importantly perhaps, the involvement of stakeholders fosters social cohesion, thereby decreasing the risk of further conflict.



HOW TO START AN LOCAL ECONOMIC DEVELOPMENT INITIATIVE/PROGRAM

Good practice tells us that LED should always be guided by a strategy. According to the World Bank, a LED strategic planning process has five stages.

A Five Stage Strategic Planning Process¹

- Stage 1: Organize the Effort
- Stage 2: Conduct a Local Economic Assessment
- Stage 3: Develop the LED Strategy (includes vision, goals, objectives, and programs, projects and action plans)
- Stage 4: Implement the LED Strategy
- Stage 5: Review the LED Strategy

The strategy will define areas of economic opportunity and obstacles to overcome—information that will guide the direction of the LED initiative and potential interventions.

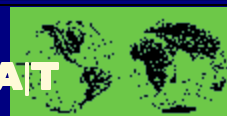
SECTION II SUCCESSFUL LED STRATEGIES

Local Economic Development is at the heart of addressing national economic growth needs and can also support greater democracy and transparency at the local level. LED partnerships can employ a variety of strategies to achieve various goals. Communities within a regional economy will need to decide upon the key programs that will become part of their strategy. Many areas in which USAID already work are a natural progression to activities that may be incorporated in a LED initiative.

Illustrative Components of a LED Strategy



¹ Further information is available at www.worldbank.org/urban/led.



SECTION III IS THE TIMING RIGHT FOR LED?

Answering the following questions may help you decide if the time is right to consider developing a local economic development component to your program. If you answer yes to at least five of the eight questions below, then conditions may be ripe for you to consider a LED project:

1. Are there one or more reform-oriented, locally-elected or appointed leaders with the energy, determination and willingness to work with their business community?

A LED initiative requires that local leaders bring key public, private, NGO and education stakeholders together to develop and implement a LED strategy.

2. Are there capable technocrats and a workable public-private institutional structure in place—or can these be put in place—to support local leadership in a LED initiative?

Staff capacity in local governments is often weak and certainly spread thin. Any elected leader will need the support of capable civil servants who understand the municipality's strategic vision and can contribute to sustaining public sector support and motivating private sector leadership and participation and the community on a day-to-day basis.

3. Is there a national economic policy, or competitiveness strategy, and a national government office (e.g., Ministry of Finance, Investment Promotion Agency) that promotes economic growth in the country's most promising economic sectors?

Successful LED initiatives rarely exist in a vacuum. They work best when they work in tandem with a clearly articulated national economic development agenda. In addition to complementary efforts, having LED connected to a broader national agenda gives LED greater visibility, greater opportunity to draw rely on human, if not financial, resources at the national level, and a connection with national government offices and businesses.

4. Is the business community active, organized and willing to work with local government to promote a LED initiative?

Most developing countries have numerous business associations. These associations can facilitate the public-private partnerships needed to develop and implement a comprehensive LED strategy. The business community needs to be willing to work with various businesses within the local community as well as businesses throughout the region. In addition, the business community should be willing to work with their respective local governments.



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5. Does the Mission have a working relationship with one or more national associations (e.g., Chamber of Commerce, Farmers Association, Small-Scale Industries Association, Association of Municipalities) to ascertain support and interested in strengthening their local chapters and/or regional associations in LED?

Again this is an opportunity to connect local issues and opportunities to national priorities and programs. A LED initiative is also an opportunity for national business associations to strengthen its regional chapters.

6. Is the Mission in contact with national corporate leaders who could be integrated into a LED initiative?

National corporate leadership participation is good for the national economy, good for the LED initiative and may well lead to future private investment by these corporate leaders in support of a LED initiative.

7. Are there other donors who may share USAID programming objectives in Local Economic Development?

Economic development projects can be expensive and risky. Banks often seek to spread the risk of financing a project—no matter how attractive that project may be—and USAID should consider other donor direct or complementary support to a LED initiative.

8. Is Mission staff prepared and able to work together in support of a LED initiative?

Successful USAID LED projects need the support and expertise of different Mission officers, in particular Democracy & Governance and Economic Growth Officers and a willingness on the part of various offices to devote their time and energy to joint design of LED initiatives.

MOVING FORWARD WITH LOCAL ECONOMIC DEVELOPMENT

Once a preliminary analysis has concluded that there may be an opportunity for a successful LED intervention, a LED assessment will help the Mission make a “GO/NO–GO” decision. The LED assessment should set the scene for the larger LED initiative by producing a preliminary description of the likely activities, specific end results desired, probable project duration and needed input of human and financial resources to reach the desired end results.

Each of the eight questions posed above should be analyzed in greater detail as part of a feasibility study. But the essential elements of a GO/NO–GO decision should include the following:

- The viability of the economic area for which the LED initiative is being proposed and the likelihood that it will lead to a well-thought-out private-public growth strategy in one or more local communities;
- An assessment of the support and importance attached to a LED initiative by key local and national government and business leaders;



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- The likelihood that the LED will produce concrete results in terms of private investment, jobs created, jobs retained and increased incomes;
- The likelihood that LED will contribute to creating sustainable institutions within one or more communities;
- The capability and commitment of LED community leaders;
- The capability of LED technical staff;
- The degree of commitment from different USAID offices within USAID to a LED initiative.



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SECTION IV LOCAL ECONOMIC DEVELOPMENT CASE EXAMPLES

LED Focus: *TOURISM DEVELOPMENT*

Country: Ghana--Central Region & Cities of Cape Coast and Elmina

Mission SO: None that accommodated this unique project opportunity

Background: Between 1993-2001, USAID provided substantial project support--to a tourism based, local economic development initiative in the Central Region of Ghana: Rehabilitation of World Heritage Monuments--inclusive of a new museum--development of Ghana's newest national park--inclusive of a Visitors Center and Canopy Walkway--strengthening of the Central Region Hoteliers Association and formation of a Ghana Heritage Conservation Trust (GHCT) to sustain these improvements.

Significance: By almost any measure, the Central Region initiative was extremely successful, leading to the creation of West Africa's newest tourist destination. Kakum Park is now the most visited Ghanaian national park, with canopy walkway gate fees of US \$88,500 in 2002. Cape Coast and Elmina Castles received 15,800 visitors in 1990, 81,500 in 2002. The Ghana Heritage Conservation Trust (GHCT) has a US \$2 million Endowment Fund and an international fund raising program. The 117 poor quality rooms at 7 hotels in 1993 grew to 718 rooms at 72 hotels by the end of 2002. Total private investment in hotel facilities is estimated at US \$55 million. Approximately 1,200 kilos of vegetables and 1,000 kilos of seafood are purchased monthly by area hotels and restaurants. The 300 tourism receptive facility workers and management staff employed in 1990 has grown to 5,000.

Lessons Learned:

- *The drive, determination and national level contacts of the Regional Governor enabled the formulation, ongoing vitality and ultimate success of the project.*
- *A vision drove the strategy and it evolved from canvassing local opinion leaders and entrepreneurial 'business winners'.*
- *USAID mission leadership sensed an opportunity and made this project happen--essentially outside the existing Mission Strategic Objectives.*
- *The initiative effectively tied local comparative advantage to national economic competitiveness priorities (non-traditional exports, foreign exchange earnings).*
- *The project's vertical relationships between small towns, 2 municipalities, a regional administration and 3 national government agencies created visibility, credibility and win-win results for many participants.*
- *Hoteliers Association members produced the most private investment and job creation; small business is usually the engine of income and job growth.*
- *Strong technical & management support from the local bureaucracies was a critical complement to the Regional Governor's leadership skills.*
- *Donor partnerships helped to share the risk, share the cost and stay the course.*
- *Sustainability is always the key issue; the viability of the public-private partnership created to sustain the tourist attractions is still in question.*

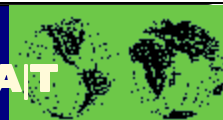
Information Contacts:

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LED Focus: **MANUFACTURING DEVELOPMENT & BUSINESS ATTRACTION**

Country: Bulgaria--City of Sevlievo

Mission SO: N/A (not a donor-funded project)

Background: In the 1980s in Bulgaria the leaders of major state firms were united in what was then called the Council of Directors. After the changes in the 1990s, these Councils ceased to exist. Sevlievo saw the need to continue this cooperation and, in 1993, the Mayor and a group of 43 businessmen created a Union of Employers. The main task of the Union was to unite employers with municipal representatives to identify priorities for the economic and social development of the area.

In 1997 the group was formally registered as Union Sevlievo 21st Century. Today it has over 80 members, comprised of the municipality, big and small firms, banks and others. Members are required to pay a modest annual fee. Membership fees cover the cost of the Union's office and the salary of the Secretary. There is an elected Managing Board of seven members with two-year terms of office.

Significance: Situated in a valley 200km east of Sofia with 50,000 inhabitants, the municipality has managed to attract over US\$100 million in foreign direct investment over a 10-year period. There are two major foreign investors in Sevlievo. American Standard (New Jersey, USA), in partnership with a local company--Vidima--made one of the largest green field investments in Bulgaria to establish Ideal Standard, a porcelain sanitary-ware company. ABB-Asea Brown Bovari (Sweden) formed a partnership with another local company, Avangard, to make insulators for the electric power sector.

The impact of foreign direct investment and the willingness of the municipality to facilitate enterprise growth and investment are dramatic. Since 1992, 3,000 new jobs have been created and 26 new businesses have been registered--half of them targeting service to the large foreign-owned companies. Local unemployment stands at just 8% against a national rate of 18%. Average incomes in Sevlievo are about one-third above the Bulgarian average, with local social service expenditures and investments far higher than most Bulgarian municipalities.

Lessons Learned:

- *The municipality has a two-pronged strategy for attracting private investment: facilitating both national level licensing and regulatory hurdles faced by investors and municipal land privatization & utility construction.*
- *Sevlievo, unlike other municipalities, provides no preferential treatment in terms of tax, or reduced land prices. Neither does it extract concessions from would-be investors. It requires only that companies register and pay their taxes.*
- *Sevlievo's success would have been impossible without close cooperation between business and government. Its public-private partnership is a valuable model.*
- *Businesses see the Union as a vital forum to communicate to government their ongoing need for such things as improved water systems, communications facilities, a gas pipeline and community entertainment facilities.*

Information Contact: Snezhana Shtonova (Executive Director, Bulgarian Business Leaders Forum): snezhana.shtonova@bblf.bg



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LED Focus: *CLUSTER-DRIVEN GROWTH*

Country: Indonesia

Mission SO: N/A (UNDP-UNCHS-funded activity)

Background: Many regions in Indonesia fail to develop primarily because they are inadequately connected to the mainstream economy. Rural areas with weak links to urban areas are handicapped in competing in regional, national and international markets. This undermines motivation to produce, invest, raise productivity, diversify production, or engage in new activities.

The currency devaluation and increasing international prices of some key agricultural commodities have led to dramatic increases in unemployment and poverty. The full effects of the economic crisis on the distribution of economic growth and poverty have not been fully understood. But the Indonesian Government has tried to document them more fully and, with the support of UNDP and UNCHS, has attempted to look at alternative policy options to strengthen rural-urban linkages to better integrate rural areas into overall social and economic development programs.

Significance: Poverty Alleviation through Rural Urban Linkages (PARUL) began in 1997 as a pilot program to test concepts and approaches for strengthening rural-urban linkages in selected provinces and districts. Five provinces in Indonesia were selected in a pilot phase. The project was renamed PLED (Partnership for Local Economic Development) in 2000 and expanded to eight additional provinces. The principles of the PARUL/PLED approach are to:

- Establish Public Private Partnerships to formulate action plans, mobilize resources and implement the plans to promote LED.
- Promote LED-based export of products out of the region.
- Focus on clusters of economic activities associated with key exports.
- Apply a market driven approach to local economic planning & development.
- Link small-scale producers to broader markets through collaboration with larger scale enterprises.
- Empower farmers, fishermen, small & medium entrepreneurs through their participation in planning and decision making in Public Private Partnerships.

Lessons Learned:

- *Public-private partnerships established at the provincial and district level in all pilot regions greatly improved insights into urban-rural interactions at the national, regional and local levels.*
- *PARUL/PLED made a major contribution to the formulation of a national strategy for poverty alleviation, regional development, and response to economic crisis.*
- *PARUL/PLED led to an analytical methodology for understanding rural-urban linkages and a framework for applying a rural-urban linkage approach to planning and development for other projects.*

Information Contact: PLED National Program Office: parul@indosat.net.id
PLED Website: www.parul-led.or.id

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LED Focus: *NATIONAL LED INITIATIVE*

Country: El Salvador

Mission SO: A UNDP-funded activity

Background: UNDP's *Capacity 21* program began working in El Salvador in 1996 under the name *Nation 21*. Its focus is local development and employment generation, water, territorial administration and social integration. Strengthening local government through decentralization has also been emphasized and the country's universities have been recruited to provide technical assistance.

Nation 21 promotes joint resolution of local problems by the state, civil society, the business sector and the international community. The overall approach is to facilitate joint action, provide financial and technical resources to local development and animate local economies. Program goals include promotion of improved community participation and coordination, technical analysis to support participatory planning at the local level, overall support to the decentralization process and links to national development policy and strategies.

Significance: During 1999 and 2000, *Nation 21* recorded two major achievements. Participatory strategic planning & departmental capital investment programming processes were developed in the Ahuachapan Program based on participation by municipal governments, civil society, the business community and national government. The Network of El Salvador Universities for Local Development-- a coalition of universities providing technical know-how for communities--was also created.

Late in 2000, *Nation 21* was incorporated into the Social Investment Fund for Local Development (FISDL), a new institution charged with implementing a national strategy of local economic development. This transformed *Nation 21* into a national initiative, linking its focused participatory processes to the national policies, strategies and programs of FISDL, thus strengthening and institutionalizing them.

Lessons Learned:

- *Partnerships: Business and non-governmental leaders generated ideas and proposals that transcended the routine business of municipal administration.*
- *Local work, national impact: Sustainability of LED mechanisms occurred through the integration of local initiatives into the national framework.*
- *Cooperation vs. competition: Community constituencies put aside partisan interests and set development goals through mature discussion at local and national levels.*
- *Demonstration effect: Each step provided concrete evidence of the benefits of the process, thereby generating an ever-growing critical mass of support.*
- *Ownership of the process: Members of the community felt involved and came to believe that the process would take into account their desires and concerns.*

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1. Sample USAID Scopes of Work (at www.makingcitieswork.org)

- Uganda Regional LED --Partnerships & Strategy Formulation
- Ukraine Municipal LED--Institutional Capacity Building
- Bulgaria Regional LED--Sector Development: Tourism

2. Selected Bibliography

- www.worldbank.org/urban/led: Comprehensive LED 'one-stop-shop' site.
- www.makingcitieswork.org: Step-by-step guides, 'Emerge to Compete' (LED partnerships & strategies) and 'Municipal Economic Development' (LED terms & tools).
- www.worldbank.org/urban/led/ecoloc.pdf: Organization for Economic Cooperation and Development (OECD) Club du Sahel handbook: 'Managing the Economy Locally in Africa'.
- www.undp.org: Richest collection of worldwide LED project descriptions, easily and quickly accessed by entering "Local Economic Development" in the SEARCH box.
- www.iedconline.org: International Economic Development Council (IEDC) is the leading professional development organization for economic development practitioners.

